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The great metallic powers

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TRADE ... TRANSPORT

[illegible] GREAT METALLIC POWERS.

HENRI CERNUSCHI,

PARIS.

[illegible]RK:

[illegible]INT, 32 BROADWAY.

[illegible]ENTS.

THE

GREAT METALLIC POWERS.

BY

HENRI CERNUSCHI,

PARIS.

NEW YORK:
COMMERCIAL BULLETIN PRINT, 32 BROADWAY.
1885.

PRICE, 35 CENTS.

CONTENTS.

I.

FREE COINAGE.

Coinage is said to be free, if every person has a right of bringing to the Mint any quantity of metal for coinage and of getting it back cut into coins.

In India and in Mexico silver alone is entitled to free coinage; gold is merely merchandise, which is bought and sold. This is silver mono-metallism.

In China silver is not coined, but it has monetary power, and circulates by weight in ingots (sycees) and fragments of ingots. Gold is merely merchandise, which is bought and sold. This is also silver mono-metallism.

In England gold alone is entitled to free coinage ; silver is merely merchandise, which is bought and sold. This is gold mono-metallism.

In France, in Germany, in the United States, gold alone is entitled to free coinage; silver is bought and sold. But there exists in each of these three countries an enormous mass of silver coins, the legal tender of which is not limited like that of small change to a certain amount, but is unlimited, like that of gold. This is humpbacked mono-metallism. Silver five-franc pieces are the French hump, thalers the German hump, silver dollars the American hump.

Bi-metallism was the simultaneously open mint for liberty of coinage of the two metals. Neither gold nor silver was merchandise; they were not bought nor sold. Bi-metallism is no longer in force in any country of the world.

II.

THE ORDEAL OF FIRE.

It is by the ordeal of fire that money may be tried. The coins which, being melted down, retain the entire value for which they were legal tender before being melted down, are good money. Those which do not retain it are not good money.

European and American gold coins and Indian and Mexican silver coins undergo the ordeal of fire triumphantly. They are good money. The silver coins of the three humps—five-franc pieces, thalers and dollars—lose their value if melted down ; the ordeal of fire condemns them—they are not good money.

Whence arises this difference ? It arises thus—from the coin-

age of gold being free in Europe and in America, from the coinage of silver being free in India and in Mexico, from the coinage of silver not being free in France, nor in Germany, nor in the United States.

Wherever the coinage of either metal is free, the metal itself is potential money. Wherever it is not free, it is not the metal which is money, but merely the quantity coined.

Wherever the metal itself is money, every ounce of it being entitled to coinage, every uncoined ounce of it is therefore worth as much as every ounce of metal already coined. The bullion does not augment in value by going to the coining-press, coins do not lose any value by returning to the crucible.

Wherever the coinage of the metal is not free, all the uncoined metal remains in the market, it is for sale, whereas what has been coined is no longer in the market and serves for buying. Yes, it serves for buying, because it is legal tender, but it cannot stand the ordeal of fire. It is not good money.

Of course Chinese sycees are good money.

III.

INTERNATIONALITY.

The limit of issue of not good money is fixed by the written law. The limit of issue of good money is fixed by nature. With liberty of coinage the monetary mass consists of the totality of the metal in existence. No legislator can change its volume.

The stability of its volume being thus guaranteed by nature itself against the caprice of Governments, the mass of silver and gold can serve as international monetary material. But this requires concord of legislation as regards the metal.

It is owing to this concord that gold is international money between France, England, Germany and the United States, and that silver is international money between India, China and Mexico.

Gold francs, sovereigns, marks, gold dollars—it is the same metal. With any one of these four coins you can coin the other three, and without loss.

Rupees, Chinese sycees, Mexican piastres—it is the same metal. With any one of these three you can make the other two, and without loss.

The gold mono-metallism of England is pure. No hump. But if all the other states were silver mono-metallic, England, while gorged with gold, would lack international money. She would feel herself isolated. She would not be long in changing her mono-metallism.

Not good money is unexportable. No internationality for silver five-franc pieces, nor for thalers, nor for silver dollars.

For the two metals to be simultaneously international money there must be uniformity of legislation as regards the ratio of value between gold and silver.

Until 1834 the American law was bi-metallic at the ratio of 15 grains of silver for one grain of gold. In 1834 the United States adopted the ratio of 16. But as France continued to coin silver at the ratio of 15½ nobody got silver coined at 16. It was profitable to export it to Europe at 15½, and people exported it. In reality gold alone was international money between the United States and France. Although having a national bi-metallic law, that is, an open mint for both metals, the United States were in fact gold mono-metallic. The coinage of silver at 15½ had to be no longer free in France before the United States could resume the coinage of their old silver dollars, which weigh 16 gold dollars The Silver Act of February 28, 1878, would have been without effect, not a single dollar would have been coined, if the coinage at 15½ had still been free in France.

Between France, Italy, Belgium and Spain, gold and silver were simultaneonsly international money so long as in each of these four countries the coinage of the two metals remained free at the same ratio of value (15½).

IV.

MONO-METALLISM IN ENGLAND.

In 1815, at the time of the general peace, there existed in England a good deal of paper money, a certain quantity of gold money, and no silver money of unlimited legal tender. This was pretty nearly the composition of the monetary stock of the United States later on, after the war of secession. In 1816, England resolved to resume by degrees specie payments, but in gold specie solely. In silver there should merely be small change. Gold mono-metallism was thus instituted.

Having merely to coin gold without having a silver currency to call in and sell as bullion, the operation could be realized easily and without loss, and was so in the course of a few years.

V.

MONO-METALLISM IN GERMANY.

It was very different with Germany when she enacted the Law of the 4th December, 1871, for the purpose of substituting gold mono-metallism for her old silver mono-metallism. The florins and thalers had to be demonetised, exported as bullion, and exchanged for gold. To effect that exchange, Germany had reckoned on the great bi-metallic country, France. Send the silver bullion to France, have it coined into five-franc pieces, then with these pieces get gold either by exchanging them for twenty-franc pieces or by buying bills on London. Such was the plan, and by 1872 its execution was begun.

VI.

BI-METALLISM IN FRANCE.

For then nearly a century, the ounce of gold had nowhere in the world ever been worth more or less than 15½ ounces of silver. Why? Because for nearly a century in the country best stocked with silver and gold, namely, France, the coinage of the two metals had been free, and free at the legal ratio of 15½ to 1 between the weight of the monetary unit in silver and that of the same unit in gold. French bi-metallism had formerly been at 15. It was in 1785 that France, to put herself in harmony with the laws of other countries, passed from 15 to 15½.

Everybody being at liberty to get the two metals coined in France at the ratio of 15½, in other words, to get the kilogramme of silver 9-10 fine transformed into 40 five-franc pieces (200 francs), and the kilogramme of gold of equal fineness into 155 twenty-franc pieces (3,100 francs), no producer, no holder of silver or gold either in Europe, in America, or in Asia, had ever thought of parting either with the kilogramme of silver or the kilogramme of gold for a smaller sum, whether in francs or in dollars, in pounds, in thalers, in Mexican piastres, or in rupees.

Thanks to French bi-metallism, there existed a parity of value between a defined weight of gold and a defined greater weight of silver. The monetary material of the world was thus unified, so unified indeed that England and India did not even perceive that their respective unlimited legal tender coins were of different metals.

VII.

HUMPBACKED MONO-METALLISM IN FRANCE.

Neither wars, nor commercial crises, nor the more abundant production, now of silver, now of gold, no natural event had ever been able to disturb the beneficent domination of the French 15½ either in one hemisphere or the other. For this domination to cease the old bi-metallic law had to be transgressed and abandoned in France itself. This was done, but by a case of imperative necessity without precedent in history. A great silver mono-metallic country, Germany, had undertaken to demonetise and export all its money. Export whither? Principally to France, a country always open to large coinages. France, which, without wincing, had allowed herself to be flooded by Californian and Australian gold, did not choose to be flooded by German silver. Why? Because Germany was making a two-fold operation. She was exporting silver and at the same time was importing gold.

To check this combined influx and efflux, France, in 1873, slackened the coinage of silver, limited it in 1874, and entirely prohibited it in 1879.

France thus placed herself under the system of humpbacked mono-metallism, and there she will remain so long as international bi-metallism be not re-established, or so long as the 5-franc pieces are not demonetised. The hump is gigantic—500 millions of 5-franc pieces. Happily France still possesses more gold francs than silver ones. But for this the gold francs would long have been at a premium.

VIII.

HUMPBACKED MONO-METALLISM IN GERMANY.

Obstructed and limited the coinage of the silver francs, still free the coinage of the gold francs, the comparative value of the two metals could not keep at 15½. Silver immediately fell, and the fall became alarming when the coinage of the silver francs was entirely stopped. That fall caused heavy losses to the German Treasury It had been giving at home a kilogramme of gold for 15½ kilogrammes of silver, and it could not obtain at London a kilogramme of gold except by giving 18, 20 kilogrammes of silver.

To stop these losses it was necessary to stop the sales. This

was accordingly done. No more demonetisation. And the old thalers are still legal tender without limit of amount at the factitious ratio of 15½ to 1 of gold. Germany like France is under the system of humpbacked mono-metallism.

IX.

HUMPBACKED MONO-METALLISM IN THE UNITED STATES.

The cessation of the free coinage of 5-franc pieces was what caused the French hump.

The cessation of the demonetisation of thalers was what caused the German hump.

The resumption of the coinage of silver dollars was what caused the American hump.

The Silver Act of the 28th February, 1878, which prescribed that resumption, after providing that the silver dollars should be full legal tender at their nominal value, continues thus :

> "The Secretary of the Treasury is authorized and directed to purchase from time to time silver bullion at the market price thereof, not less than two million dollars' worth per month nor more than four million dollars' worth per month, and cause the same to be coined monthly into such dollars. * * * And any gain or seigniorage arising from this coinage shall be accounted for and paid into the Treasury, as provided under existing laws relative to the subsidiary coinage."

Begun in March, 1878, the purchases of silver bullion have continued without interruption at the rate of two million dollars' worth a month. By the end of next December the total disbursement will have reached the figure of 188 millions, and about 215 millions of dollars will have been manufactured. A heavy hump !

The French hump is still heavier. But France is far from liking it. She cannot get rid of it. But she would gladly not be burdened with it, and she takes good care not to increase it. The French hump has been stationary since 1879. The American hump will constantly increase so long as the Silver Act which gave it birth remains in force.

X.

THE FREE COINAGE OF SILVER DOLLARS.

Everywhere, in Europe as in America, people are in expectancy. What are the United States going to do ? Are they going to uphold the Silver Act of 1878, are they going to repeal it, or are they going to authorise the free coinage of silver ?

It is certain that if the Congress of the United States authorised the free coinage of silver, all the dollars already coined by the Treasury would instantaneously become good money. Good money also would be the dollars which the public would then get coined. They would all stand the ordeal of fire like rupees and Mexican piastres. But what would happen ? The United States would lose the whole of their gold, and, although having a bi-metallic law, they would end by having only silver money like India and Mexico.

In this way:

As soon as the coinage of silver by the United States was free, Europe would act towards the United States just as Germany acted towards France, so long as France coined silver. Europe would demonetise large masses of silver and send them to Philadelphia to get them made into dollars, with which dollars she would get gold dollars despatched to her. It is true that the ratio of weight between the gold and the silver dollar is not 15½ but 16, and that by demonetising her silver to get it coined into dollars Europe would lose the difference, that is to say 3 per cent. She would lose even more, for the gold dollar would not fail to be at a premium over the silver dollar. But these losses would be nothing in comparison with those which Europe would incur, if, to lighten her burden, she were forced to sell at London, destined for Asia, the silver withdrawn from circulation. Unquestionably, if the United States open their Mints to the free coinage of silver, all the European States will hasten to profit by it.

Why is not the coinage of silver free in France ? Because, were the coinage free, all the gold would emigrate, and France, deprived of gold, would no longer have a monetary medium either with England, or with Germany, or with the United States.

France therefore cannot, will not resume the coinage of silver, unless it be at the same time resumed, firstly, by the United States, and, secondly, by England or by Germany.

Very venturesome would be those who should recommend the United States of America to undertake single-handed what France will undertake only triple-handed.

XI.

COSTLY INFLATION, AND COSTLESS.

The mass of all the gold of the world would go into a twelve-horse stable. A building forty times as large would hold all the mass of silver.

If silver did not exist, people would everywhere be under the system of gold mono-metallism. A scanty mass. Coins so small and thin, that to make them available in the circulation, the representative procedure, certificates of deposited metal, would have to be employed for the smaller divisions. If gold did not exist people would everywhere be under the system of silver mono-metallism. A very convenient mass. People would manage perfectly well, though without renouncing the use of deposit certificates for the larger divisions.

The monetary legislation of other countries is such that neither France nor the United States can let themselves come under silver mono-metallism. Yet, in itself, that system has nothing unscientific. What science utterly condemns is humpbacked mono-metallism, especially that of the United States, whose hump is an ever-increasing one.

Of the two sureties which money should have (the legislator, who makes it legal tender; nature, which governs the issue), silver dollars have only one—the legislator.

Legal tender law prevents any money from falling below the nominal par. Paper roubles are at par; greenbacks were always at par. Silver dollars will always be at par. Yes, but gold dollars may exceed par, may be at a premium, and against that premium holders of silver dollars will no more be able to defend themselves than were the holders of inconvertible greenbacks. Paper dollar or silver dollar (when not good money), the one is no better than the other, nor worse. The one no more than the other stands the ordeal of fire.

It is said, indeed, that the silver dollar contains and would contain a value of 85 cents, 80, 75, 70, &c., according as the price of silver bullion rises or falls in the market, and according as more or fewer millons of dollars were melted down into bullion for sale. The truth is, that never, never will anyone think of melting down a single silver dollar in order to utilize its material for the arts, industries, or for exportation, just as nobody has ever thought of using paper money for making cardboard.

Having disbursed only 188 millions of dollars for manufacturing 215 millions of not good money, can the Treasury be said to have gained the difference—27 millions?

No, the Treasury must be said to have wasted 188 millions. If for manufacturing the 215 millions it had not bought metal, but had bought paper, it would have saved 188 millions, reduced taxation by that amount to the great satisfaction of the taxpayers, and the present currency would be just the same. It would comprise the same quantity of good money in gold, the same quantity of legal tender notes and national bank-notes, payable at sight in good money, and the same quantity of not good money.

If the United States think their monetary stock insufficient, if they believe that that stock is not increasing fast enough through the fresh gold which their soil is constantly producing, if they are persuaded that it is necessary or simply expedient to inflate their currency further, well, inflation for inflation, the costly inflation of the Silver Act should give way to the costless inflation of paper money.

XII.

A HEAVIER DOLLAR.

Why does the Silver Act dollar weigh 412½ grains? Because the object was to revive the old dollar, the coinage of which had become impossible in 1834. But the Silver Act might without inconvenience have provided that the dollar should be of less weight. When coinage is not free the weight given to the coin has no more importance than the dimensions given to paper money. The dollar of 300, of 200, of 100 grains would not be worse than the dollar of 412½.

But what of the dollar of 500 grains? Would that not be better? No, for it would not stand the ordeal of fire, and consequently would not be exportable.

Cotton does not fetch a higher price by increasing the size of the bales, nor sugar by making loaves heavier than usual. These commodities are sold by weight. Just the same with silver. Whether the owners of silver in the United States send to Europe dollars of 412½ grains or of 500, or simply bullion, it will make no difference, silver will still be bought by weight to be sent, as now, mostly to Asia. Mexican piastres are not treated differently. They are always sold by weight.

Not an ounce of American silver will enter into European cur-

rency so long as Europe has not resumed the free coinage of silver.

If the Silver Act had fixed the weight of the dollar at 500 grains, the Treasury would not have bought a larger quantity of bullion, but it would have made a smaller quantity of dollars, and each dollar would have cost it more without any advantage to the public. The situation of silver would be none the better.

XIII.

THE CHEAP DOLLAR.

When the rate of discount or interest at which bills of exchange and loans are negotiated is sensibly low, money is said to be cheap, and this is intelligible.

But what means the cheap dollar?

The coinage of gold is free, and 23.22 grains of pure gold are a dollar. As many multiples of 23.22 grains of pure gold as the miner extracts from the mine, so many dollars. The issuer of gold dollars is the miner himself. His all the gains, and his all the losses.

If in the space of one month, for instance, he has extracted a sum of dollars greater than the sum of dollars which he expended in their extraction, then, at the close of the month, he will have in hand more dollars than he had before, and, of course, each one of them will have cost him less than a dollar. Cheap dollars indeed, but cheap for him, not for the public. If he has extracted in the space of another month fewer dollars than he spent in the process, then, at the close of the month, he will have in hand fewer dollars than he had at the outset, and, of course, each one of them will have cost him more than a dollar. Costly dollars indeed, but costly for him, not for the public.

The coinage of silver not being free, the issuer of silver dollars is not the miner, but the State. The lower the price at which the Treasury buys silver bullion, the cheaper the dollars which it receives from the Mint. But cheaper for it, not for the public.

No American citizen's hand has yet felt the sensation of cheapness either in receiving or expending the Silver Act dollars.

The owners of the New Caledonia nickel mines have been long begging and praying the French Government to begin making nickel francs, and on a large scale. Purveyors are everywhere the same. They are fond of large sales. For the people, nickel francs would not be cheaper than gold francs.

XIV.

THE OUTLET FOR SILVER.

Silver mines do not produce eagles, half-eagles or dollars, like gold mines, yet they produce rupees and sycees, which are unlimited legal tender in India and in China respectively. This great privilege of unlimited legal tender accorded by the legislator to gold in the West and to silver in the East, is nowhere accorded either to nickel or copper.

Just as the mints of Europe and of the United States are always open to the producers of gold, so the Chinese circulation and the Indian mints are always open to the producers of silver. Mining companies ought to be contented.

CONCLUSION.

So long as the Bi-metallic Treaty, proposed in 1881 by the United States and France, is not accepted either by England or by Germany, not one silver 5-franc piece should be coined in France, not one silver dollar should be coined in the United States. In no form, under no pretext, should silver currency be increased, neither in France nor in the United States.

7 Avenue Velasquez,
Parc Monceau, Paris,
October, 1885.

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